

Message Text

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15

ACTION EB-12

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 FEA-02

AEC-11 AID-05 CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00

FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 PA-04 USIA-15 PRS-01 DRC-01 /216 W

----- 018552

R 060940Z OCT 74

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 2120

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

US MISSION OECD PARIS 261

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

AMEMBASSY LAGOS

AMEMBASSY JAKARTA

C O N F I D E N T I A L ABU DHABI 1376

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJECT ABU DHABI REDUCES OIL PRODUCTION

REF: ABU DHABI 1302.

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1. ABDULLAH ISMAIL, UNDERSECRETARY UAE MIN PETROLEUM,

GAVE AMBASSADOR OCTOBER 5 FOLLOWING MORE EXTENSIVE INFORMATION ON AGREEMENT RECENTLY REACHED BETWEEN MINISTRY AND ADPC (AGREEMENT WITH ADMA WILL FOLLOW SAMEOERMS).

2. RECAPITULATING, ISMAIL SAID SETTLEMENT FOR THIRD QUARTER 73, WHICH UNDER FORMER 25/75 PARTICIPATION FORMULA, INVOLVED COMPANY BUYING BACK AT 93 PERCENT OF POSTED PRICE ALL BUT VERY MINOR QUANTITIES OF OIL WHICH ADNOC ABLE TO MARKET AT THAT TIME. FOR FIRST TWO QUARTERS OF 74, UNDER 60/40 PARTICIPATION SPLIT, COMPANIES AGREED TO BUY-BACK PRICE WHICH AVERAGED 93.8 PERCENT OF POSTED PRICE FOR SIX-MONTH PERIOD. AGAIN IT WAS AGREED THAT QUANTITY OF BUY-BACK OIL WOULD BE ANYTHING ADNOC COULD NOT SELL.

3. FOR THIRD QUARTER 74 ADPC AGREED TO BUY BACK 300,000 BBL/DAY (ADMA 146,000 BBL/DAY) AT 94.86 PERCENT OF POSTED PRICE. SINCE COMPANY HAD LIFTED SOME 300,000 BBL/DAY MORE THAN THIS, IT OFFERED TO DEDUCT THIS AMOUNT FROM ITS LIFTINGS IN 4TH QUARTER. ADNOC, DRCD# ALREADY WITH

LACK OF DEMAND FOR ITS FOURTH QUARTER OFFERINGS AT 93 PERCENT OF POSTED PRICE, REJECTED THIS AND INSISTED ADPC MAKE PAYMENT FOR FULL QUANTITY OF OIL IT HAD LIFTED IN THIRD QUARTER. ADPC HAS REFUSED THUS FAR TO GO ABOVE 90 PERCENT OF POSTED PRICE FOR ADDITIONAL 300,000 BBL/DAY, OFFER WHICH MINPET HAS REJECTED. ISSUE REMAINS UNSOLVED.

4. FOR FOURTH QUARTER OF 1974, HOWEVER, ADPC AND MINPET HAVE REACHED FIRM AGREEMENT ON DISPOSITION OF OIL. ADPC PRODUCTION (PRESENTLY RUNNING AT 900,000 BBL/DAY) WILL BE SPLIT AS FOLLOWS: 40 PERCENT COMPANY EQUITY OIL; 40 PERCENT BUY-BACK AT 93 PERCENT OF POSTED PRICE; AND 20 PERCENT TO BE MARKETING BY ADNOC, AS PART OF THEIR WILLINGNESS TO ACCEPT THIS QUANTITY OF BUY-BACK OIL COMPANIES HAVE INSISTED ON ASSURANCE THAT PRODUCTION WILL NOT DROP BELOW PRESENT LEVEL. MINPET HAS PROVIDED THIS IN FORM OF LETTER WHICH SAYS THAT COMPANY WILL BE HELD TO ONE-FOR-ONE SPLIT BETWEEN EQUITY AND BUY-BACK OIL ONLY IF PRODUCTION IS EQUAL TO OR MORE THAN PRESENT LEVEL.
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5. ISMAIL SAID AS FAR AS MINPET WAS CONCERNED, IT BELIEVED FOURTH QUARTER TERMS WOULD BE SATISFACTORY BASIS FOR EXTENSION INTO 1975.

6. ON REASONS FOR CUT IN LEVEL OF PRODUCTION, ISMAIL SAID THERE HAD BEEN STRONG PRESSURE FOR REDUCTION FOR TECHNICAL REASONS. ADNOC ENGINEERS BELIEVED ADPC WAS

OVER-PRODUCING ITS FIELDS, AND IN CASE OF ADMA, THEY WANTED TO EXPLORE REASONS WHY ADMA WISHED TO INCREASE PRODUCTION FROM LOWER ZAKUM STRUCTURE WITHOUT EVEN BEGINNING TO DEVELOP UPPER ZAKUM WHICH ADNOC BELIEVES MAY BE BIGGEST FIELD IN ABU DHABI. ADNOC HAS ACCORDINGLY ORDERED RESERVOIR STUDIES BY INDEPENDENT CONSULTANT (WE UNDERSTAND ADNOC ABOUT TO AWARD CONTRACT WITH SEVERAL US FIRMS AND ONE FRENCH FIRM IN COMPLETION). ISMAIL ACKNOWLEDGED THAT WHILE THESE VALID TECHNICAL REASONS FOR LOWERING PRODUCTION EXISTED, ADNOC HAD BEEN RECOMMENDING THEM FOR SOME TIME, AND TRIGGERING FACTOR HAD IN FACT BEEN TOTAL LACK OF RESPONSE TO ADNOC OFFERINGS AT 93 PERCENT OF POSTED PRICE, AND GOVERNMENT DECISION TO KEEP OIL IN GROUND RATHER THAN SELL AT LOWER PRICE.

7. ISMAIL SAID ADNOC HAD INVITED OVER 50 FIRMS TO BUY AT 93 PERCENT, HAD RECEIVED NO INTEREST REPLIES FROM SOME FORTY. MOST OF REMAINDER HAD EXPRESSED INTEREST BUT ONLY AT LOWER PRICES. TWO FIRMS SUG-

GESTED THEY WOULD BUY AT 93 PERCENT SAYING THEY WERE SENDING REPS TO NEGOTIATE, BUT, SAID ISMAIL, "THEY HAVEN'T TURNED UP YET."

8. COMMENT: TWENTY PERCENT WHICH ADNOC HAS UNDERTAKEN TO MARKET ON ITS OWN IN FACT REPRESENTS (AT 900,000 BBL/DAY PRODUCTION) THE APPROXIMATELY 150,000 BBL/DAY IT IS NOW MARKETING THROUGH PREVIOUS SPECIAL SALES (MAINLY TO JAPAN LINES) AS WELL AS CONCESSIONARY DEALS SUCH AS AMOUNTS BEING SUPPLIED BANGLADESH. IF ADNOC SUCCEEDS IN SELLING SOME MORE OIL AT 93 PERCENT OF POSTED PRICE PRODUCTION MAY EDGE UPWARDS (IN SPITE OF TECHNICAL REASONS FOR HOLDING IT DOWN) BUT IF IT CAN'T SELL, WE SUSPECT PRODUCTION WILL STAY WHERE IT
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NOTE BY OC/T: (#)AS RECEIVED.

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